

Message Text

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ORIGIN FRB-02

INFO OCT-01 AF-10 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SPC-03 SS-15

USIA-15 ACDA-19 IO-13 AID-20 COME-00 EB-11 TRSE-00

XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 STR-08

AGR-20 CEA-02 /206 R

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DRAFTED BY: NORMAND BERNARD

APPROVED BY: AF/E: W.B. COOTE

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TO AMEMBASSY NAIROBI PRIORITY

C O N F I D E N T I A L STATE 189871

FOR: THE HONORABLE ARTHUR F. BURNS, CHAIRMAN FEDERAL
RESERVE BOARD, HOTEL INTERCONTINENTAL

IN AN INTERVIEW REPORTED IN TODAY'S PAPERS, SENATOR SPARKMAN SAID THAT BANKS "HAVE GONE TOO FAR IN RAISING THE PRIME RATE TO 10 PER CENT." HIS OFFICE ISSUED A STATEMENT TO THE EFFECT THAT HE HAD CONFERRED WITH YOU ON THE INTEREST RATE RISE. FIRST NATIONAL BANK OF CHICAGO ANNOUNCED TODAY THAT IT WOULD HOLD ITS PRIME AT 10 PER CENT THIS WEEK.

PROFESSOR FELLNER WAS NAMED BY PRESIDENT NIXON TODAY TO SERVE ON THE COUNCIL OF ECONOMIC ADVISERS.

PRESIDENT NIXON SIGNED THE GOLD DEVALUATION BILL OVER THE WEEKEND. EXCHANGE MARKETS WERE CONSIDERABLY QUIETER TODAY. THE EUROPEAN BAND WAS NOT FULLY EXTENDED AND THERE WAS NO INTRA-EUROPEAN INTERVENTION. WITHIN THE BAND THE FRENCH FRANC MOVED UP SHARPLY, TO WITHIN 3/4 PER CENT OF ITS CENTRAL RATE AGAINST THE MARK.

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THE DOLLAR WAS SLIGHTLY EASIER AGAINST THE EUROPEAN BAND AND LITTLE CHANGED AGAINST STERLING, THE YEAN, AND THE CANADIAN DOLLAR. THE TOKYO MARKET WAS CLOSED FOR A HOLIDAY. EURO-DOLLAR RATES WERE OFF SHARPLY, REFLECTING THE EASING IN U.S. MONEY MARKET RATES. THREE-MONTH DEPOSITS FELL BY 1/4 TO 10-13/16 PER CENT. GOLD DECLINED \$.75 TO \$102.50. THE BALANCE OF PAYMENTS ON THE OFFICIAL RESERVE TRANSACTIONS BASIS SHOWED A SURPLUS OF \$104 MILLION IN THE WEEK ENDED SEPTEMBER 19.

REAL HOURLY AND WEEKLY EARNINGS DROPPED SHARPLY BETWEEN JULY AND AUGUST REFLECTING THE SHARP RISE OF CONSUMER PRICES. NOMINAL HOURLY EARNINGS ROSE SLIGHTLY OVER THE MONTH BUT AFTER READJUSTMENT FOR PRICE CHANGE WERE DOWN 1.7 PER CENT. COMPARED TO A YEAR EARLIER, ALL MEASURES OF NOMINAL EARNINGS WERE UP SIGNIFICANTLY BUT ALL MEASURES OF REAL EARNINGS SHOWED DECLINES RANGING UP TO 2.1 PER CENT FOR SPENDABLE WEEKLY EARNINGS.

THE FEDERAL RESERVE COMMODITY PRICE INDEX INCREASED IN THE WEEK OF SEPTEMBER 18 AS PRICES OF FOODSTUFFS AND INDUSTRIAL MATERIALS ROSE BY 0.6 AND 0.4 PER CENT, RESPECTIVELY. THE INDEX OF FOODSTUFFS HAS FALLEN NEARLY 16 PER CENT SINCE THE BEGINNING OF PHASE IV ON AUGUST 13, BUT IN LIGHT OF THE PRECEDING RISE IT IS STILL NEARLY 11 PER CENT ABOVE THE LEVEL OF JULY 18. DOMESTIC FINANCIAL MARKETS CONTINUED TO DISPLAY A FIRM TONE, ESPECIALLY IN THE TREASURY BILL AREA WHERE GOOD DEMAND AND VERY THIN POSITIONS CONTRIBUTED TO SIZEABLE FURTHER RATE DECLINES. TALK OF AN EASIER MONETARY POLICY CONTINUES TO DOMINATE MARKET ATTITUDES. THE 3-MONTH BILL FELL 31 BASIS POINTS TO 7.38 PER CENT. BOND PRICES ROSE MODERATELY AND STOCK PRICES EXTENDED THEIR ADVANCE IN ACTIVE TRADING. THE DOW JONES INDUSTRIALS ROSE NEARLY 9 POINTS TO A LEVEL OF ABOUT 937, CAPPING AN ADVANCE OF NEARLY 50 POINTS OVER THE LAST 6 TRADING SESSIONS. FEDERAL FUNDS TRADED IN A 10-1/2 TO 59 10-3/4 PER CENT RANGE, MOSTLY IN THE UPPER END OF THE RANGE. THERE WERE NO DESK OPERATIONS. THE AVERAGE CONTRACT INTEREST RATE ON 80 PER CENT CONVENTIONAL HOME MORTGAGES ROSE 2 BASIS POINT FURTHER IN THE WEEK ENDING SEPTEMBER 21 TO A LEVEL OF 8.83 PER CENT. ALTHOUGH LAST WEEK'S INCREASE WAS THE SMALLEST SINCE THE END OF JUNE, THE RATE HAS RISEN 17 BASIS POINTS DURING THE FIRST 3 WEEKS OF SEPTEMBER. THE BALANCE OF TRADE FIGURES FOR AUGUST, CENSUS BASIS, SHOW A REVERSION TO A DEFICIT WITH EX-

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PORTS OF \$72.1 BILLION AND IMPORTS OF \$72.3 BILLION, BOTH AT SEASONALLY ADJUSTED ANNUAL RATES. RUSH

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